

March 20, 1968

FOR RELEASE MARCH 21, 1968

1968 ECONOMIC EXPANSION IN COMMON MARKET

SEEN AS HELPING U. S. TRADE AND PAYMENTS BALANCE

Washington, D.C., March 21 -- Imports of the European Community may increase by 10 per cent in 1968, thus giving an appreciable boost to American exports, according to the Commission's Fourth Quarterly Report of 1967 on the economic situation in the Community, which was published today in Brussels.

The report is of interest in view of the measures taken or proposed by the governments of the United States and the United Kingdom which are intended to eliminate their balance of payments deficits in the course of 1968 and 1969. It contains a number of indications on the expected reduction in the Community's current balance of payments surplus, which was particularly large in 1967 as the result of the slowdown in economic activity. The report suggests that foreseeable economic developments in the Community in 1968 should greatly facilitate the adjustment process in the United States balance of payments.

Community's Gross Product Should Rise by at Least 4.5 Per Cent

With expansion gathering momentum again in the member countries, the Commission now considers that the real gross Community product should grow by at least 4.5 per cent in 1968 as compared to 2.5 per cent in 1967. The implementation of the British and American measures permits the forecast that the expansion of demand for Community exports will be distinctly less vigorous than in 1967. The annual growth rate of visible exports of the Community, which in 1967 attained 7.5 per cent in terms of value, may therefore be perceptibly smaller in 1968 and will undoubtedly not exceed 6 per cent. By contrast, internal demand in the Community, which will probably suffer little from the direct and indirect effects of the above

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measures, should pick up considerably. Gross fixed asset formation should show a more vigorous expansion than in 1967, although trends may vary somewhat from country to country and according to the type of investment, total consumer expenditure will expand much more appreciably than in 1967.

In view of this trend in internal demand, the Commission considers that the Community's visible imports, after failing to advance in 1967, will rise rapidly in 1968. In terms of value their growth rate may be as high as 10 per cent. Thus, it is expected that the Community demand for imports from the United States, which was relatively weak in 1967, will expand at a lively pace in 1968. The Commission believes that the increase of investment in plant and machinery will be very large and the replenishment of stocks, particularly in raw materials and semi-manufactures, will progress strongly. Since purchases of plant and machinery and of basic products account by themselves for more than 40 per cent of total Community imports from the United States, American sales to the countries of the Community should receive an appreciable boost.

Trade and Capital Transactions Imbalance with U. S. Probably Will Worsen

All in all, with export to non-member countries slowing down and imports expanding vigorously, the Community's 1968 trade balance should deteriorate considerably in relation to the previous year. The decline in the balance could reach 1.3 billion dollars. The surplus on the current account can be expected to contract even more.

Considering the above factors and providing domestic demand in the United States can be kept within limits compatible with general equilibrium, the U. S. surplus in trade with the Community will rise considerably in 1968. The aggregate deficit of the Community countries in visible trade with the United States, which in 1967 totaled 1.4 billion dollars, may be distinctly higher in 1968. An additional factor to be considered is the deterioration of the Community's balance of capital transactions with the United States, which may be particularly large, since the American restrictive measures now in force affect mainly the countries of western Europe and, in particular, the countries of the Community.